

Sheffler, Susan

From: Jackson, Scott
Sent: Monday, June 02, 2014 8:26 AM
To: Ilhardt, Benjamin
Subject: FW: DCHS - CHA/HPMC

Categories: B

Scott Jackson
Director

HOULIHAN LOKEY
312-456-4729 Direct
312-730-5713 Mobile
SJackson@HL.com

-----Original Message-----

From: Chung, Christopher [mailto:christopher.chung@blackstone.com]
Sent: Friday, May 30, 2014 8:45 AM
To: Turnbull, Andrew; Ligibel, Geoffrey; Jackson, Scott
Cc: 경옥 윤 (ykw@chamc.co.kr); Rivers, Ken; Dube, Monte I.; Meade, James D.; Marwil, Jeff J.; Chae, Jay
Subject: DCHS - CHA/HPMC

Andrew,

On behalf of CHA Healthcare and HPMC (together, "CHA"), I want to again thank you and your team for taking the time yesterday to discuss with us the status of the bidding situation and providing guidance on what you believe it will take for CHA to continue into the next round as a bidder. We found your feedback valuable and our client is highly appreciative of your candor and direction.

As discussed yesterday, I want to reiterate that our key priorities in preparing the last proposal was to ensure continuity of (i) acute care, (ii) charity care and community services, and (iii) employment for existing employees with sufficient comfort around their CBAs and pensions. We understood these matters to be of utmost importance to Daughters and we sought to remove any ambiguity about our sincere intention to sustainably operate all 6 LHMs into the foreseeable future. As such, our DD to date was primarily focused on reaffirming our ability to fully address the System's significant challenges and future requirements, in terms of both capital and commitment.

Our examination as of last week gave us comfort to submit our revised non-binding bid on May 21 with the following elements: (1) ascribing a \$350MM Enterprise Value for the 6 LHM operations and assets (excluding the remaining non-hospital assets); (2) our 100% assumption of DCHS' unfunded pension liabilities; (3) agreeing to maintain all existing CBA agreements, (4) agreeing to have DCHS retain the accrued QAF Payments from 1 January 2014 through closing; and (5) committing to the LHMs' operational continuity as "going concerns".

It is important to note that we only valued the LHM operations in our revised bid as that was the primary due diligence scope provided to us (with very limited information provided on the ancillary assets). That said, we understand that

there may be further inherent value in these assets and fully intend to uncover them in the next stage. We also reflected the real estate assets on a book value basis given their “operational” nature; that said, we recognize that creditors may hold a different view on their collateral value and we also plan to conduct a detailed FMV appraisal. These two areas, in addition to further work to support the turnaround strategies for the hospital operations, are core elements of our future DD workscope.

You have told us that one or more of the bidders have offered up Enterprise Value(s) for the entire System in an aggregate amount at least equal to the outstanding debt obligations and the aggregate unfunded pension liabilities. Although we don’t know the parameters or underlying assumptions of these offers, we do recognize the implied valuation gap which may be attributable in part to as-yet-unknown value embedded in the ancillary and real estate assets.

We would like an opportunity to bridge this gap. To that end, CHA is prepared to offer an enhanced Enterprise Value of not less than \$555MM, subject to further due diligence and discussions with you. We believe that this amount would equal or exceed the total outstanding debt and unfunded pension liabilities (including RPHE) as noted in DCHS’ unaudited financials as of 31 March 2014 and related VDR information.

We believe we face similar challenges with your other bidders insofar as there remains material additional due diligence required in order to enable CHA to enter into a “clean” definitive agreement. That said, we are confident that we will be able to uncover additional value once we have had an opportunity to undertake further DD work. We are currently finalizing our engagement of cost, hospital strategy and real estate appraisal experts to assist us in this exercise, and will continue to devote as much time and resources as necessary to ensure that we fully address the Daughters’ needs and continue in this process as a credible buyer.

CHA remains excited about this transformational opportunity and hopes to continue the Daughters’ legacy of quality, compassionate care. We look forward to continuing our dialogue. Please let us know if you have some time this morning to discuss.

Thanks again.

Best regards,

Chris

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